

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Camelot Entertainment Group, Inc.
Form 10QSB
August 16, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB
(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-3078

CAMELOT ENTERTAINMENT GROUP, INC.
(FKA DSTAGE.COM, INC.)

(Exact name of registrant as specified in its charter)

Delaware 52-2195605

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

100 E. San Marcos Blvd. # 400
San Marcos, California 92069

(Address of principal executive offices (zip code))

(760) 510-5930

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the
last 12 months (or for such shorter period that the registrant was required to file such
reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

As of June 30, 2004, the Registrant had outstanding 61,783,638 shares of Common Stock, \$0.001
par value.

CAMELOT ENTERTAINMENT GROUP, INC. (FKA DSTAGE.COM, INC.)
INDEX TO FORM 10-QSB

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Balance Sheet as of June 30, 2004	3
Statements of Operation for the three and six months ended June 30, 2004 and 2003	4
Statements of Changes in Stockholders Equity for the three and six months ended June 30, 2004 and 2003	5
Statements of Cash Flows for the three and six months ended June 30, 2004 and 2003	6
Notes to Financial Statements	8
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	31
Item 4. Controls and Procedures	31
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	32
Item 2. Changes in Securities and Use of Proceeds	32
Item 3. Defaults Upon Senior Securities	32
Item 4. Submissions of Matters to a Vote of Security Holders	32
Item 5. Other Information	32
Item 6. Exhibits and Reports on Form 8-K	33
Signatures	33

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

THIS REPORT ON FORM 10-QSB CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE SUBJECT TO THE "SAFE HARBOR" CREATED BY THOSE SECTIONS. THESE FORWARD-LOOKING STATEMENTS INCLUDE BUT ARE NOT LIMITED TO STATEMENTS CONCERNING OUR BUSINESS OUTLOOK OR FUTURE ECONOMIC PERFORMANCE; ANTICIPATED PROFITABILITY, REVENUES, EXPENSES OR OTHER FINANCIAL ITEMS; AND STATEMENTS CONCERNING ASSUMPTIONS MADE OR EXCEPTIONS AS TO ANY FUTURE EVENTS, CONDITIONS, PERFORMANCE OR OTHER MATTERS WHICH ARE "FORWARD-LOOKING STATEMENTS" AS THAT TERM IS DEFINED UNDER THE FEDERAL SECURITIES LAWS. ALL STATEMENTS, OTHER THAN HISTORICAL FINANCIAL INFORMATION, MAY BE MARKET TO BE FORWARD-LOOKING STATEMENTS. THE WORDS "BELIEVES", "PLANS", "ANTICIPATES", "EXPECTS", AND SIMILAR EXPRESSIONS HEREIN ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS, UNCERTAINTIES, AND OTHER FACTORS, WHICH WOULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN SUCH STATEMENTS. FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "FACTORS THAT MAY AFFECT FUTURE RESULTS," AND ELSEWHERE IN THIS REPORT, AND THE RISKS DISCUSSED IN THE COMPANY'S OTHER SEC FILINGS.

PART I - FINANCIAL INFORMATION

Page - 4

CAMELOT ENTERTAINMENT GROUP, INC.
(fka Dstage.com, Inc.)
BALANCE SHEET
(A Development Stage Company)
June 30, 2004
(Unaudited)

ASSETS

CURRENT ASSETS:

Cash	\$	8,311
------	----	-------

OTHER ASSETS:

Investments

Licensing Agreements and Technologies

Patents

Total assets	\$	8,311
--------------	----	-------

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	\$	164,549
--	----	---------

Due to officers		87,500
-----------------	--	--------

Total current liabilities		252,049
---------------------------	--	---------

STOCKHOLDERS' EQUITY

Preferred stock, \$.001 par value, 50,000,000		0
---	--	---

shares authorized, none issued and outstanding

Common stock, \$.001 par value, 150,000,000		61,784
---	--	--------

shares authorized, 61,783,638 issued and

outstanding

Additional paid-in capital		6,312,987
----------------------------	--	-----------

Subscriptions under financing agreement		(207,535)
---	--	-----------

(Deficit) accumulated during the development stage		(6,410,974)
--	--	-------------

Total stockholders' equity		(243,738)
----------------------------	--	-----------

Total liabilities and stockholders' equity	\$	8,311
--	----	-------

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CAMELOT ENTERTAINMENT GROUP, INC.
(fka Dstage.com, Inc.)
(A Development Stage Company)
STATEMENTS OF OPERATIONS
(Unaudited)

	For the 3 months ended		For the 6 months ended		Cummulative from October 12, 1999 (Inception) to
	June 30,2004	June 30,2003	June 30,2004	June 30,2003	June 30,2004
Revenue:					
Professional services	\$ 0		\$ 0		\$ 58,568
Expenses:					
Cost of services					95,700
Sales and marketing					53,959
Research and development					252,550
General and administrative	219,851	101,980	351,532	147,980	3,178,656
Impairment of assets					2,402,338
Impairment of investments in other companies					710,868
Total expenses	219,851	101,980	351,532	147,980	6,694,071
Income (loss) from operations	(219,851)	(101,980)	(351,532)	(147,980)	(6,635,503)
Interest (expense)		(4,179)		(8,179)	(9,294)
Other income (expense), net					(21,677)
Gain on extinguishment of debt					255,500
Net (loss)	\$ (219,851)	\$ (106,159)	\$ (351,532)	\$ (156,159)	\$ (6,410,974)
Net (loss) per share:					
Basic & diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	
WEIGHTED AVERAGE SHARES OUTSTANDING:					
Basic & diluted	41,249,763	16,271,601	41,000,128	16,271,601	

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CAMELOT ENTERTAINMENT GROUP, INC.
(fka Dstage.com, Inc.)
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Treasury Stock	Additional under	(Deficit) Accumulated During	Subscription
Common Stock				
Paid-In Development financing Deferred				
Shares Amount				
Shares Amount				
Capital Stage agreement Compensation Total				

Balance, October 12, 1999

0

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

	\$0
Issuance of shares for cash at \$.02 per share	
	1,000,000
	1,000
	19,000
	20,000
Issuance of shares for services at \$.02 per share	
	2,600,000
	2,600
	49,400
	52,000
Issuance of shares for expense reimbursement	
	834,569
	835
	15,856
	16,691
at \$.02 per share	
	0
Net (loss)	

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

(66,796)

(66,796)

Balance, December 31, 1999

4,434,569
 4,435
 0
 0
 84,256
 (66,796)
 0
 0
 21,895

Issuance of shares for conversion of notes

1,000,000
 1,000

19,000

payable at \$.02 per share

20,000

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

	0
Issuance of shares for services at \$.02 per share	
	750,000
	750
	14,250
	15,000
Issuance of shares for cash at \$1.00 per share	
	10,835
	11
	10,824
	10,835
Issuance of shares for conversion of notes	
	15,000
	15
	14,985
	15,000
payable at \$1.00 per share	
	0
Issuance of shares for expense reimbursement	

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

	4,630
	4
	4,626
at \$1.00 per share	4,630
	0
Issuance of shares for services at \$1.00 per share	107,000
	107
	106,893
Investment in other companies by issuance	107,000
	710,000
	710
	709,290
of shares at \$1.00 per share	710,000
	0
	14

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Issuance of shares for prepaid services at

195,000
195

194,805

at \$1.00 per share

195,000

Issuance of shares for deferred compensation

0

89,000
89

88,911

to officers, directors and controlling parties

89,000

at \$1.00 per share

0

(89,000)

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Deferred compensation expensed (89,000)

Net (loss) 21,920
21,920

(954,329)

(954,329)

Balance, December 31, 2000

7,316,034
7,316
0
0
1,247,840
(1,021,125)
0
(67,080)
166,951

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Issuance of shares for expense reimbursement	1,248 1
	5,616
Issuance of shares for prepaid services	5,617
	337,208 337
	400,407
Property & equipment lease by issuance of shares	400,744
	1,000,000 1,000
	1,149,000
Licensed technology by issuance of shares	1,150,000
	2,270,000 2,270
	35,730
Issuance of shares for deferred compensation	38,000
	1,122,944 1,123
	1,297,229

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

to officers, directors and related parties	1,298,352
	(1,298,352)
Issuance of shares for developed	(1,298,352)
	16,667
	17
	19,150
technology expensed	19,167
	0
Forgiveness of debt by shareholder	
	31,489
	31,489
Related party services paid for by shareholder	
	25,500
	18

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Deferred compensation expensed 25,500

Net (loss) 315,423
315,423

(1,875,683)

(1,875,683)

Balance at December 31, 2001

12,064,101
12,064
0
0
4,211,961
(2,896,808)
0
(1,050,009)
277,208

Issuance of shares for deferred compensation

to officers, directors and related parties 0

Issuance of shares for services 0
 1,207,500
 1,208

150,367

Licensed technology by issuance of shares (151,575)
 0

3,000,000
 3,000

897,000

Deferred compensation expensed 900,000

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Purchase of treasury stock in exchange	0
	(1,500,000)
	(1,500)
for licensed technology	(1,500)
Purchase of treasury stock in exchange	0
	(900,000)
	(900)
	900
for capital lease	1,201,584
	1,201,584
Net (loss)	0

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

(3,000,982)

(3,000,982)

Balance at December 31, 2002

16,271,601
 16,272
 (2,400,000)
 (2,400)
 5,260,228
 (5,897,790)
 0
 0
 (623,690)

Issuance of shares for debt

20,000,000
 20,000

204,296

Retirement of treasury shares

224,296

(2,400,000)
 (2,400)

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

	2,400,000
	2,400
	0
Cancellation of shares previously issued	(15,168)
	(15)
	15
	0
Net (loss)	(161,652)
	(161,652)
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
Balance at December 31, 2003	33,856,433
	33,857
	0
	0
	5,464,539
	(6,059,442)
	0
	0
	(561,046)

Shares issued for services

100,000
100

2,900

Shares issued for financing

3,000

6,791,287
6,791

196,948

Subscriptions receivable for financing agreement

203,739

0
0

(116,069)

Net (loss) for the three months ended March 31, 2004

(116,069)

0
0

(131,681)

(131,681)

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Balance at March 31, 2004

40,747,720
 40,748
 0
 0
 5,664,387
 (6,191,123)
 (116,069)
 0
 (602,057)

Shares issued for payables

15,548,051
 15,548

421,952

Shares issued for services

437,500

850,000
 850

92,150

Shares issued for financing

93,000

4,637,867
 4,638

134,498

Subscriptions received for financing agreement

139,136

	(91,466)
Net (loss) for the three months ended June 30, 2004	(91,466)
	(219,851)
Balance at June 30, 2004	(219,851)
	61,783,638
	\$61.784
	\$0
	\$0
	\$6,312,987
	(\$6,410,974)
	(\$207,535)
	\$0
	(\$243,738)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CAMELOT ENTERTAINMENT GROUP, INC.
(fka Dstage.com, Inc.)
(A Development Stage Company)
STATEMENTS OF CASH FLOW
(Unaudited)

	For the three months		For the six months		Cumulative from October 12, 1999 (Inception) to June 30, 2004
	ended June 30, 2004	2003	2004	2003	
OPERATING ACTIVITIES					
Net (loss) income for the period	\$ (219,851)	\$ (106,159)	\$ (351,532)	\$ (156,159)	\$ (6,410,974)
Adjustments to reconcile net (loss) to cash provided (used) by operating activities:					
Gain on extinguishment of debt					(255,500)
Depreciation					3,997
Amortization of deferred compensation					1,538,927
Common stock issued for services	530,500	-	533,500	-	707,500
Common stock issued for expense reimbursement					22,051
Common stock issued for technology					19,167
Impairment of investments in other companies					710,868
Impairment of assets					2,628,360
Prepaid services expensed					530,104
Expenses paid through notes payable proceeds					66,445
Loss on disposal of property and equipment					5,854
Change in assets and liabilities:					
Increase (decrease) in accounts payable	0	106,159	0	156,159	0
Increase (decrease) in due to officers	(350,000)	0	(262,500)	0	87,500
Increase (decrease) in accrued liabilities	(8)	0	(7)	0	164,549
Net Cash provided (used) by operating activities	(39,359)	0	(80,539)	0	(181,152)
Cash flows from investing activities:					
Purchase of fixed assets					(6,689)
Cash provided (used) from investing activities	0	0	0	0	(6,689)
Cash flows from financing activities:					

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Contributed capital					25,500
Proceeds from issuance of common stock	47,670	0	88,850	0	166,175
Increase (decrease) in notes payable					4,477
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash provided (used) in financing activities	47,670	0	88,850	0	196,152
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Increase in cash	8,311	0	8,311	0	8,311
Cash at beginning of period	0	0	0	0	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash at end of period	\$ 8,311	\$ 0	\$ 8,311	\$ 0	\$ 8,311
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CAMELOT ENTERTAINMENT GROUP, INC.
(fka Dstage.com, Inc.)
(A Development Stage Company)
STATEMENTS OF CASH FLOW - CONTINUED
(Unaudited)

	For the three months		For the six months		Cumulative from October 12, 1999 (Inception) to June 30, 2004
	ended June 30,		ended June 30,		
	2004	2003	2004	2003	
SUPPLEMENTAL CASH FLOW INFORMATION:					
Interest paid	\$ 0	(\$4,179)	\$ 0	(\$8,179)	\$ 31,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:					
Issuance of common stock for property and equipment					\$ 1,153,162
Issuance of common stock for licensed technology					\$ 938,000
Purchase of treasury stock in exchange for property and technology					\$ 2,400
Purchase of licensed technology for debt to seller					\$ 250,000
Issuance of common stock for prepaid and other assets					\$ 1,726
Prepayment of services for common stock					\$ 2,046,000
Investments in other companies					\$ 710,000
Conversion of debt to common stock					\$ 225,500
Forgiveness of debt by stockholder					\$ 31,489
Decrease (Increase) of subscription receivable for advances	(\$91,466)		\$ 47,670		

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CAMELOT ENTERTAINMENT GROUP, INC. (FKA DSTAGE.COM, INC.)

NOTES TO FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND JUNE 30, 2003

1. ORGANIZATION AND BASIS OF PRESENTATION

Camelot Entertainment Group, Inc. fka Dstage.com, Inc. (the *Company*), a Delaware Corporation, was incorporated with the intention of providing services and resources to entrepreneurs looking to launch novel products and ventures worldwide in exchange for an interest in the startup ventures. On April 16, 2004, the Company filed a Definitive Schedule 14-C Information Statement disclosing the approval of a majority of the shareholders to change the name of the Company to Camelot Entertainment Group, Inc., increase the authorized common shares to 150,000,000 and to authorize 50,000,000 preferred shares. The shareholders also approved the adoption of a 2004 stock option plan authorized to issue 50,000,000 shares. The actions became effective on May 12, 2004.

The Company's activities since inception have consisted of raising capital, recruiting a management team and entering into ventures and alliances with Affiliates. The Company has substantially relied on issuing stock to officers, directors, professional service providers and other parties in exchange for services and technology. As of June 30, 2004 the Company had written-off all of its investments due to impairments in the carrying value of the assets. Since inception, impairment of investments in other companies and of long-lived assets accounts for approximately 50% of the Company's net losses.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had minimal revenues, has experienced material operating losses and has a stockholders' deficit. These conditions, the loss of financial support from Affiliates, and the failure to secure a successful source of additional financial resources raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the classification of liabilities that may result from the outcome of this uncertainty.

Management's plans with respect to the current situation consist of restructuring the Company's debt and seeking additional financial resources from existing investors or others in implementing its new business model. However, instability in the stock price may make it difficult to find parties willing to accept the Company's restricted shares of common stock in exchange for cash and or services required to execute its Plan of Operation. There is no assurance that such resources would be made available to the Company, or that they would be on financially viable terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis Of Presentation

The unaudited financial statements included herein were prepared from the records of the Company in accordance with Generally Accepted Accounting Principles and in accordance with current securities regulations these unaudited financial statements have been reviewed by our independent auditors. These financial statements reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2003. The current interim period reported herein should be read in conjunction with the Company's Form 10-KSB subject to independent audit at the end of the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Substantial estimates have been used regarding lives of assets, impairment of investments in other companies and impairment of long-lived assets and prepaid expenses, which may not be realized. Actual results could differ materially from those estimates.

Income taxes

The Company provides for income taxes based on the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

Financial Instruments

Financial instruments consist primarily of obligations under accounts payable and accrued expenses, notes payable and capital lease obligations. The carrying amounts of accounts payable and accrued expenses approximate fair value because of the short maturity of those instruments. The carrying value of notes payable and capitalized lease obligations approximate fair value because they contain market value interest rates and have specified repayment terms. The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

Impairment of long-lived assets

Impairment of long-lived assets is assessed by the Company whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets net carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and the estimated fair value of the related assets.

Loss Per Common Share

The Company has adopted SFAS No. 128, *Earnings per Share*, which supercedes APB No. 15. Basic EPS differs from primary EPS calculation in that basic EPS does not include any potentially dilutive securities. Diluted EPS must be disclosed regardless of the dilutive impact to basic EPS. There were no potentially dilutive securities outstanding at December 31, 2003.

Revenue Recognition

Revenue consists of professional services. Revenues for services are recognized when the services are rendered. The amounts of such revenues are recorded based on the value of compensation received for the services. In the Company's current operations, compensation to the Company has consisted of stock in start up companies to whom the services were rendered.

Stock Based Compensation

Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (*SFAS 148*). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent disclosures in annual and interim financial statements with regard to the method of accounting for stock-based employee compensation and the impact of the method used on reported results. The Company has elected to adopt the recognition provisions of SFAS 148 for stock-based compensation recorded for fiscal years beginning after December 15, 2002. The interim disclosure requirements of SFAS 148 are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002.

3. GOING CONCERN UNCERTAINTIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring operating losses and negative cash flows from operations, which raise substantial doubt about its ability to continue as a going concern. The Company's continued existence is dependent upon its ability to increase operating revenues and/or obtain additional equity financing. In view of these matters, the Company has undergone a series of negotiations to obtain additional equity financing to enable it to achieve its strategic objectives. The Company has an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. While Eagle has advanced the Company \$88,850 during 2004, it appears unlikely that such funding will be enough to implement the Company's Plan of Operation during the remaining six months of 2004 and beyond. As a result, the Company must find additional sources of financing in order to remain a going concern in the future. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

4. COMMITMENTS AND CONTINGENCIES

The Company is delinquent on obligations to various vendors. Accounts payable balances over 90 days past due as of June 30, 2004 was \$22,263. The Company believes it has identified and accrued for all valid claims from creditors, consultants and vendors. Although there have been no specific disputes over these matters and related amounts, these third parties may assert additional claims as the Company attempts to settle all past due obligations.

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

The Company also has a non-dilution commitment with an Affiliate to issue 20% of all newly issued common shares to the Affiliate in exchange for funding cash flow deficits over the period specified in the agreement. The Company has issued a total of 11,429,154 common shares to the Affiliate during 2004 under the agreement.

5. ADVANCES FROM AFFILIATE

During 2004, the Company issued 11,429,154 common shares to Affiliate for \$135,340 under an agreement in which the Affiliate must fund the Company's cash flow deficits over the period specified in the agreement. The agreement requires the Company to issue 20% of all newly issued common shares to the Affiliate until the Company obtains financing sufficient to implement its plan of operation.

During the first quarter of 2004, the Company issued 6,791,287 common shares to an Affiliate in exchange for the Affiliate funding cash flow deficits over the period specified in the agreement. The trading price of the Company's common stock at the time the agreement was entered into was \$0.03 per share. Through March 31, 2004, the Affiliate advanced \$46,490 prior to December 31, 2003 which was comprised of \$45,374 of principal and accrued interest of \$1,116. During the first quarter of 2004, the Affiliate also advanced \$41,180 to pay the Company's operating expenses. Those advances were converted for common shares at \$0.03 per share. At March 31, 2004, The Affiliate had paid \$87,670 as consideration for 2,922,333 shares and received 3,868,954 shares under its financing agreement at a deemed value of \$116,069.

During the second quarter of 2004, the Company issued 4,637,867 common shares to an affiliate under the terms of its agreement with the Company. The Affiliate advanced \$47,670 to the Company and the advances were converted for 1,589,000 common shares at \$.03 per share. At June 30, 2004, the Affiliate had paid \$135,340 for 4,511,333 shares and the Company 6,917,821 shares were issued under its financing agreement at a deemed value of \$207,535.

6. DUE TO OFFICERS

As of June 30, 2004, the Company owed its officers \$87,500 of accrued compensation for services provided during the quarter ended June 30, 2004.

7. COMMON STOCK

During the first quarter there were 100,000 restricted common shares at a market value of \$3,000 issued for legal services. The Company issued 6,791,287 common shares to an affiliate in exchange for the affiliate funding cash flow deficits over the period specified in the agreement. The trading price of the Company's common stock at the time the agreement was entered into was \$0.03 per share.

During the second quarter of 2004, the Company issued 4,637,867 common shares to an affiliate under the terms of its agreement with the Company. The Affiliate advanced \$47,670 to the Company and the advances were converted for 1,589,000 common shares at \$.03 per share. In addition, the affiliate will receive 2,000,000 options to purchase common shares. Such options have not been issued to date.

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Also during the second quarter the Company issued 750,000 restricted common shares at a deemed value of \$90,000 to an investor relations firm and 100,000 restricted common shares to a director for accounting services at a deemed value of \$3,000.

8. STOCK OPTIONS

The Company has an agreement with Corporate Awareness Professionals, Inc. (CAP), which in part provides for the initial purchase of 1,675,000 shares of its \$.001 par value common stock, through options priced at \$0.15 per share, for \$251,250. CAP also has the option to purchase an additional 1,000,000 shares at \$.50 per share for \$500,000. Upon purchasing those shares, CAP will have the right to purchase up to a maximum of 10% more shares, or 100,000 shares, at \$.50 per share. If CAP exercises all its options, it will have purchased 2,775,000 total shares for \$801,250. All of the options are exercisable until the expiration of the term of the CAP agreement.

9. RELATED PARTY TRANSACTIONS

On March 20, 2003, the Company entered into an agreement with an Affiliate whereby the Company will issue 20% of its outstanding common shares in exchange for services and advances. A total of 6,791,287 restricted common shares were issued during the first quarter of 2004 for principal advances \$45,374 and accrued interest of \$1,116 made during 2003 in accordance with the agreement. The Affiliate paid \$41,180 in expenses on behalf of the Company during the first quarter of 2004.

During the second quarter of 2004, the Company issued 4,637,867 common shares to an affiliate under the terms of its agreement with the Company. The Affiliate advanced \$47,670 to the Company and the advances were converted for 1,589,000 common shares at \$.03 per share. At June 30, 2004, the Affiliate had paid \$135,340 for 4,511,333 shares and the Company held a subscription receivable of 6,917,821 shares for \$207,535.

On June 30, 2004 the Company issued at total of 15,548,051 restricted common shares at a fair value of \$437,500 to its officers of which \$350,000 was for 2003 services and \$87,500 was for services performed during the first quarter of 2004.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The matters discussed in this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. These forward-looking statements include but are not limited to statements concerning our business outlook or future economic performance; anticipated profitability, revenues, expenses or other financial items; and statements concerning assumptions made or exceptions as to any future events, conditions, performance or other matters which are "forward-looking statements" as that term is defined under the Federal Securities Laws. All statements, other than historical financial information, may be market to be forward-looking statements. The words "believes", "plans", "anticipates", "expects", and similar expressions herein are intended to identify forward-looking statements. Forward-looking statements are subject to risks, uncertainties, and other factors, which would cause actual results to differ materially from those stated in such statements. Forward-looking statements include, but are not limited to, those discussed in "Factors That May Affect Future Results," and elsewhere in this report, and the risks discussed in the Company's other SEC filings.

Critical Accounting Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of our significant accounting policies are detailed in the notes to the financial statements which are an integral component of this filing.

Management evaluates the probability of the utilization of the deferred income tax asset related to the net operating loss carryforwards. The Company has estimated a \$2,360,000 deferred income tax asset related to net operating loss carryforwards and other book/tax differences at June 30, 2004. Management determined that because the Company has yet to generate taxable income, and that the generation of taxable income in the short term is uncertain, it was appropriate to provide a valuation allowance for the total deferred income tax asset.

The Company has acquired certain technology and licenses. Prior to June 31, 2004, the Company determined that the value of these acquired assets was impaired and has provided an impairment allowance for the full purchase price of these assets. The impairment amount charged to operations in prior years was \$3,113,206.

Critical Accounting Policies

The Company has defined a critical accounting policy as one that is both important to the portrayal of the Company's financial condition and results of operations; and requires the management of the Company to make difficult, subjective or complex judgments. Estimates and assumptions about future events and their effects cannot be perceived with certainty. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, where such policies affect our reported and expected financial results. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Significant Accounting Practices

Beginning January 1, 2004 we adopted new accounting rules which were effective January 1, 2001, which require, among other changes, that exploitation costs, including advertising and marketing costs, be expensed as incurred. Theatrical print costs are amortized over the periods of theatrical release of the respective territories. Under accounting rules in effect for periods prior to January 1, 2001, such costs were capitalized as a part of film costs and amortized over the life of the film using the individual-film-forecast method. The current practice dramatically increases the likelihood of reporting losses upon a film's theatrical release, but should provide for increased returns when a film is released in the ancillary markets of home video and television, when we incur a much lower proportion of advertising costs. Additional provisions under the new accounting rules include changes in revenue recognition and accounting for development costs and overhead, and reduced amortization periods for film costs.

Accounting for Motion Picture Costs

In accordance with accounting principles generally accepted in the United States and industry practice, we amortize the costs of production, including capitalized interest and overhead, as well as participations and talent residuals, for feature films using the individual-film-forecast method under which such costs are amortized for each film in the ratio that revenue earned in the current period for such title bears to management's estimate of the total revenues to be realized from all media and markets for such title. All exploitation costs, including advertising and marketing costs, are expensed as incurred. Theatrical print costs are amortized over the periods of theatrical release of the respective territories.

Management plans to regularly review, and revise when necessary, our total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film asset to estimated fair value. These revisions can result in significant quarter-to-quarter and year-to-year fluctuations in film write-downs and amortization. A typical film recognizes a substantial portion of its ultimate revenues within the first two years of release. By then, a film has been exploited in the domestic and international theatrical markets and the domestic and international home video markets, as well as the domestic and international pay television and pay-per-view markets. A similar portion of the film's capitalized costs should be expected to be amortized accordingly, assuming the film or television program is profitable.

The commercial potential of individual motion pictures varies dramatically, and is not directly correlated with production or acquisition costs. Therefore, it is difficult to predict or project a trend of our income or loss. However, the likelihood that we would report losses, particularly in the year of a motion picture's release, is increased by the industry's method of accounting which requires the immediate recognition of the entire loss (through increased amortization) in instances where it is estimated the ultimate revenues of a motion picture could not recover our capitalized costs. On the other hand, the profit of a profitable motion picture must be deferred and recognized over the entire revenue stream generated by that motion picture. This method of accounting may also result in significant fluctuations in reported income or loss, particularly on a quarterly basis, depending on our release schedule, the timing of advertising campaigns and the relative performance of individual motion pictures.

Accounting for Films

In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2 Accounting by Producers or Distributors of Films (SoP 00-2). SoP 00-2 establishes new accounting standards for producers or distributors of films, including changes in revenue recognition, capitalization and amortization of costs of acquiring films and accounting for exploitation costs, including advertising and marketing expenses. We elected adoption of SoP 00-2 effective as of April 1, 2004.

The principal changes as a result of applying SoP 00-2 are as follows:

Advertising and marketing costs, which were previously capitalized to investment in films on the balance sheet and amortized using the individual film forecast method, are now expensed the first time the advertising takes place.

We capitalize costs of production, including financing costs, to investment in motion pictures. These costs are amortized to direct operating expenses in accordance with SoP 00-2. These costs are stated at the lower of unamortized motion picture costs or fair value (net present value). These costs for an individual motion picture or television program are amortized in the proportion that current period actual revenues bear to management's estimates of the total revenue expected to be received from such motion picture over a period not to exceed ten years from the date of delivery.

Management plans to regularly review, and revise when necessary, its total revenue estimates, which may result in a change in the rate of amortization and/or write-down of all or a portion of the unamortized costs of the motion picture to its fair value. No assurance can be given that unfavorable changes to revenue estimates will not occur, which may result in significant write-downs affecting our results of operations and financial condition.

Revenue Recognition

Revenue from the sale or licensing of motion pictures is recognized upon meeting all recognition requirements of SoP 00-2. Revenue from the theatrical release of motion pictures is recognized at the time of exhibition based on the company's participation in box office receipts. Revenue from the sale of DVDs in the retail market, net of an allowance for estimated returns, is recognized on the latter of shipment to the customer or street date (when it is available for sale by the customer). Under revenue sharing arrangements, rental revenue is recognized when we are entitled to receipts and such receipts are determinable.

Revenues from television licensing are recognized when the motion picture is available to the licensee for telecast. For television licenses that include separate availability windows during the license period, revenue is allocated over the windows. Revenue from sales of international territories are recognized when the feature film is available to the distributor for exploitation and no conditions for delivery exist, which under most sales contracts requires that full payment has been received from the distributor.

For contracts that provide for rights to exploit a program on multiple media (i.e. theatrical, video, television) with a fee for a single motion picture where the contract specifies the permissible timing of release to various media, the fee is allocated to the various media based on management's assessment of the relative fair value of the rights to exploit each media and is recognized as the program is released to each media. For multiple-title contracts with a fee, the fee is allocated on a title-by-title basis, based on management's assessment of the relative fair value of each title. Cash payments received are recorded as deferred revenue until all the conditions of revenue recognition have been met.

Income Taxes

The Company recognizes future income tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the financial statements or income tax returns. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Capital Structure

The Company has adopted Statement of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure" ("SFAS 129"), which requires companies to disclose all relevant information regarding their capital structure. The Company reached an agreement with Eagle Consulting Group, Inc. on March 28, 2003 to provide operational funding for the Company. In exchange for twenty percent (20%) of the Company's outstanding common stock on an anti-dilutive, continuing basis until the Company could secure additional financing from another source, Eagle agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. Eagle advances through June 30, 2004 total \$135,340, including interest. In accordance with the anti-dilutive provision, the amount of stock due Eagle is calculated on a quarterly basis. This anti-dilution provision to the agreement could have a material adverse effect on our shareholders as it might continue for a substantial period of time and as a result the dilutive effect to the shareholders cannot be fully determined until the funding from Eagle ceases.

Going Concern Uncertainties

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring operating losses and negative cash flows from operations.

The Company's continued existence is dependent upon its ability to increase operating revenues and/or obtain additional equity financing.

The Company entered into an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. Eagle has advanced the Company a limited amount of funds in the first quarter of 2004, and it appears likely that such funding should be enough to meet all of the Company's cash requirements for the remaining quarters in 2004. However, the Company must find additional sources of financing in order to remain a going concern in the future. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PLAN OF OPERATION

OVERVIEW

The Company was incorporated in Delaware on October 12, 1999. During May 2004 we changed our name to Camelot Entertainment Group, Inc. and changed our business model from pursuing a new approach to venture formation (the Dstage.com Model) to the Camelot Studio Model (or "CSM"), which provides for the development, production, marketing and distribution of motion pictures. The CSM attempts to combine the efficiencies realized by studios of the early 1900s, with the artistic focus and diversity of today's independent productions. Using this approach, the Company believes the risk-reward relationship facing the typical film project can be dramatically shifted. For example, whereas a typical film pushes artists and directors to rush development and production in hopes of conserving cash, the CSM extends the pre-production cycle substantially to reduce costs while simultaneously increasing quality. Similarly, whereas a low-budget picture is severely limited by the types of postproduction technology used, due to budget constraints, we intend to invest directly in top of the line technology, spreading the costs over a targeted minimum of 12 original motion pictures each year. The goal of the CSM is to develop the ability to consistently produce films with the look, feel and artistic content of multi-million dollar pictures, for a fraction of the cost.

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Our historical operations, as Dstage.com, Inc., consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. Due to the complete and drastic change in our business focus, from seeking to aid development stage companies to our current focus of producing, distributing and marketing original motion pictures, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you read the discussion in connection with the audited financial statements, the unaudited interim financials and the related notes included elsewhere in this quarterly report in addition to thoroughly reading our current plan of operations.

On August 25, 2004 we will hold our annual meeting of shareholders to vote on the following matters:

(a) Electing five directors to serve on the Board of Directors of the Company: Robert P. Atwell, Albert A. Golusin, Jane Olmstead, Rounsevelle Schaum and H. K. Dyal III; (b) ratify the selection of the Company's auditors, Epstein Weber & Conover, PLC, of Scottsdale, Arizona; (c) approve the acquisition of Camelot Films, Inc., a Delaware corporation, Camelot Films, Inc., a Nevada corporation, Camelot Films, Inc., a California corporation, and the establishment of Dstage.com, Inc., a Delaware corporation newly formed in April, 2004, each to serve as a subsidiary of the Company; (d) ratify all actions taken by the directors since the last shareholder meeting; (e) authorize the directors to commence with an SB-2 registration filing with the Securities and Exchange Commission; (f) authorize the Board of Directors to amend by-laws or adopt new By-Laws; and (g) to transact such other business as may properly come before the meeting.

Our View of the Steps Required for Motion Picture Commercialization

We view the motion picture commercialization process as involving three major steps, each of which bears a symbiotic relationship to the costs, creative value and profitability of any planned film to be released by us. These three steps are development, production and distribution. Under our planned model, development should include not only screenplay acquisition and development, but also a carefully constructed and unusually elongated pre-production phase. This process was developed as a result of the direct experience and observations of our management.

By viewing the development phase as a distinct and major component of the motion picture creation process, we hope that we can create a culture that encourages producers, writers and directors associated with our projects to focus their efforts and expertise on creating world-class pictures before the first day of shooting begins. We believe that creating such a culture could potentially result in a substantial reduction of the cost of our film projects, as compared to the film projects of our competitors. When combined with what we believe is a unique method of attracting, compensating and retaining talent that would otherwise not be involved in an active motion picture project, it is expected that the opportunity for a cost advantage could emerge.

Two members of our management team, President and Chief Executive Officer Robert P. Atwell and H. Kaye Dyal, who is expected to be named President of Camelot Films, our film production division, have worked extensively in financing, producing and directing original motion pictures and television programs with a combined 50 years experience in the motion picture and related businesses. This combined experience led our management to a number of beliefs upon which our planned business model should be founded. These key views are:

- The manner in which development and pre-production activities are managed can have the largest impact on both the quality, or creative content, and the cost of creating a motion picture.
- There are a number of factors that make it difficult for most motion pictures to invest large amounts of time and a proportionally large share of a motion picture s overall budget into development and pre-production activities.
- The factors that make it difficult for many motion picture projects to invest a major share of a film s time and financial resources into development and pre-production activities may have created a pervasive business culture that emphasizes moving projects towards principal photography too quickly.
- A very small percentage of all writers that want to have their screenplays become completed motion picture projects will ever realize this ambition.
- A very small percentage of all directors will participate in principal photography in any given year.
- The percentage of qualified actors that never have the opportunity to participate in a completed original motion picture that is released commercially is substantial.
- There are large periods of unemployment for many individuals involved in motion picture production.

We believe that these observations suggest that the capacity to create motions pictures, in terms of employable professionals, is far higher than the current demand of existing film production companies for these services. However, we also believe that growth in motion picture consumption worldwide has created increased demand for original motion pictures in general. As a result, we anticipate that the underemployed, or unemployed, directors, writers and other film professionals could help fill a void for low cost, quality original motion picture production, given the right mix of incentives and business structure. There can be no assurance that such benefits, advantages or capacity will ever materialize.

Successfully creating such low cost, but relatively high quality pictures should result in a higher per picture financial return and a lower breakeven point for each film produced. Also, by distributing these pictures primarily through in-house distribution professionals, the per picture return might be increased even further, enabling more motion pictures to be produced by us annually and thereby diversifying the risk associated with any single film project. These beliefs form the foundation for our planned business model and expected strategy.

Our Strategy of Emphasizing the Pre-Production Phase of Motion Picture Commercialization

As noted previously, we believe that a very small percentage of all writers that want to have their screenplays become completed motion picture projects will ever realize this ambition. We believe that this assertion speaks to the opportunity we envision to cost effectively acquire writing, directing producing and other motion picture production talent that would otherwise exceed demand for these services.

This perceived opportunity is critical to our strategy, because without a great script, we believe it is either incredibly expensive or simply impossible to produce a great motion picture. However, we also believe that few great scripts begin as great scripts, but most evolve from a great idea to a substandard script and so forth. Matching great script ideas with tried and true expertise of professionals that know character development, genre formulas and how to convert words into pictures that create passion are expected to allow us to realize our vision.

We believe that many small and medium sized production companies can rarely afford to invest their time into unproven writers, much less even consider going with unproven directing talent. Moreover, we believe that the investors and distributors they are aligned with often play a major role in which projects get approved for production, or green-lighted.

Similarly, we believe that major studios have even more reasons for steering clear from these unproven sources of product. If these assertions are correct, then a large pool of untapped creative talent available for use in motion picture production exists. It is our intention to engage this pool to commercialize motion pictures in accordance with our strategy. To accomplish this objective, we intend to do the following:

- *Obtain Complete And Outright Ownership Of Scripts And Other Literary Works:* We anticipate that by offering the proper incentives to screenwriters and other authors of compelling literary works well suited for a film project, we should be able to acquire complete and outright ownership of these copyrights for a fraction of what many producers would pay simply to get an option on a script. As mentioned, such writers have an incentive that fewer than 10% of Screenwriters Guild members expect to experience in a given year the true opportunity to have their vision become a theatrically released motion picture. In addition, our plan calls for participating writers to share in the success of their script, through profit participation and indirectly in the success of other film projects we complete, through restricted shares of or common stock. This same formula is expected to allow us to attract directors, producers and other creative personnel with a passion for making pictures that the public wants to see.

- *A Recurring 6-Month Cycle Of Pre-Production Activities:* Our plans for the pre-production phase for each motion picture project we initiate is to utilize a recurring 6-month cycle that starts every month for a new film, enabling us to create a rolling pipeline of product. Unlike our perception of pure independents and small production companies, we don't anticipate that our pre-production phase could consume creative resources by having producers, writers and directors hunt for additional film financing. Instead, we anticipate that each film should have a set and fixed budget. We expect the additional time that should emerge, if we are successful, to allow the production designer, producers, director of photography and other personnel adequate time to find ways to increase quality and reduce costs through skillful planning.

- *Relatively Firm Scheduling Of Film Projects:* Another feature we expect to emerge as a result of our planned approach is that it should allow relatively firm scheduling of the cast at a very early stage, something that we believe is rare in the world of pure independent productions. During this same time, we expect the production team to benefit from a mentoring environment that insures the creative spark sought in each of our productions does not become an increasing collection of unrealistic ambitions, leading to missed production schedules. With these elements firmly in place, we would typically expect principal photography to begin in the fifth month of each project.

Our Strategy of Achieving Higher Quality and Lower Costs During the Production Phase of Motion Picture Commercialization

Four key elements following development and pre-production are expected to enable us to create quality pictures for a fraction of the cost experienced by our competitors. These four elements are:

1. *Digital Photography*

Like the model we plan to pursue, we believe that purely independent productions can realize costs savings by using digital film technology due to the lower cost of processing, stock, dailies and certain editing costs. We also believe that major studios benefit from using digital technology in certain genres, but not so much from a cost standpoint.

Instead, we think that the heavy special effects used by major studios high-budget action and science-fiction pictures are increasingly enhanced as a result of using digital photography. While, if true, this would negate some of the cost benefits of using digital photography, the overall value in terms of entertainment quality would still be enhanced, in general. One party that we believe has found the benefits of digital photography rather elusive is the small and mid-sized production company.

We believe that this is generally because when such companies convince a director to use digital photography, the director and director of photography (or DP) are likely to specify additional camera setups. We also believe that the increased, low-cost coverage available, along with real-time video monitoring, often results in issues between directors and directors of photography on projects of these companies, as they analyze and debate each shot during precious shooting time. As a result, the mixed use of digital photography by small and medium sized production companies generally has a neutral impact on overall value, in our opinion.

2. Profit Participation

We believe that it is very common for purely independent productions to offer profit participation, or points, as a means of getting parties they could otherwise not afford to hire (for cash) to work on the production. If this is in fact a standard method of simply getting a picture made for these types of productions, we believe the effects on value are neutral. That is, if every competitive production is offering this same type of compensation, the potential impact of the incentive is reduced.

Similarly, in the case of major studios, we believe that all of the parties involved in such productions have access to sophisticated negotiators and advocates that can reasonably weigh the potential market value of such incentives. If so, we believe that such incentives rarely offer a competitive advantage to the production. However, for small and medium sized independents, our model assumes that the added incentive of points can be the extra incentive needed to attract certain parties that would otherwise not participate on a given project.

We intend to use profit participation in a manner that we think is precedent setting in the industry. Firstly, under our model, every member of the production stands to participate in the financial success of our film projects, thereby reversing a industry tradition whereby the phrase net has had little or no meaning or substance. Similarly, since the same types of writers and directors that would be otherwise willing to work on a picture with little or no compensation are being pursued under our model, albeit at very low cash rates, the added incentive of profit participation is expected to be a meaningful bonus in the eyes of these parties.

3. Production Management

We believe that the largest full-time employers of motion picture production management, and also the entities with the most developed production management infrastructures, are major studios. However, we believe that these large bureaucracies, while essential to the management of a relatively large volume of high budget pictures, also create an environment that often pits creative talent against management. If true, then to a certain degree, this may offset some of the potential advantages of their production management systems. The production management systems of one-picture only, pure independent productions tend to be ad hoc systems that find their way into the process through the producer, director and other personnel that are assembled to create a one-time organization, in our opinion. This leaves the small and medium sized production companies, who benefit from their ambitions of creating multiple motion pictures. Unfortunately, as their staffs of full-time production and development personnel grow, we believe their budgets grow accordingly, in general, creating little competitive value over time.

4. *Common Stock Incentives*

To the best of our knowledge, no other publicly traded film company has ever utilized common stock to incentive all of its creative, production and management resources. There are two specific reasons why this option is not generally available to competitors. Firstly, most of the companies making lower budget pictures do not have business models that justify becoming a publicly traded company. Secondly, for companies that do have the scale to offer publicly traded stock as a form of production compensation, we believe that doing so would be at odds with their fundamental business cultures and, in many cases, at odds with the wishes of their shareholders.

With the exception of using common stock, we believe that each of these value enhancement tools is used to varying degrees, with varying success, by other motion picture productions. However, we are not aware of any other Company that uses the systematic and flawless integration of these elements into each of their productions the way that we intend to. If this is correct, we believe it may explain why few if any motion picture companies can consistently realize the reduction in cash production expenditures combined with the increase of quality that we expect to be a key element of our business model.

Our Strategy of Developing and Utilizing In-house Distribution Expertise

A number of new distribution channels have increased the means by which motion picture product can be consumed and, therefore, the potential channels for revenue. These channels include theatrical or box office, video cassette, DVD, pay-per-view television, cable television, network television, television syndication, non-theatrical outlets, such as in-flight movies, and international channels. With so many new distribution channels available, it may seem surprising that pictures with smaller budgets still find it so difficult to get their films in front of audiences. Our management believes this pervasive problem is primarily due to two difficult obstacles to overcome.

Firstly, we believe that the very reliance on a distributor places a small independent production at the mercy of a party they have limited bargaining power with and virtually no control over: the distributor. Under such a scenario, we believe that even if revenues and expenses are fairly and properly accounted for by the distributor, cash must flow through many hands before revenue makes its way back to investors and other profit participants.

Secondly, and perhaps equally important, we believe that without a large volume of product in the pipeline, the alternatives to using an outside distributor are few, and rarely result in large, predictable inflows of cash. For instance, if an independent producer has a single picture budgeted at \$5 million, it is generally economically impractical to establish an in-house distribution department with the limited mission of directly marketing that one film. At the same time, we believe that volume purchasers of motion picture product, including studios, cable outlets, home video companies and other buyers with large needs for product, require a dependable source of multiple pictures. The one-picture or two-picture production company simply cannot meet these needs, making it more efficient for buyers to deal with an agent or sub-distributor, in our opinion. Our planned combination of high-volume and high-quality motion pictures stands to change these economics, making in-house distribution an essential element of our strategy.

Motion Picture Library

A potential benefit of our business model is the planned ownership of an expansive library of feature films that should be, for the most part, unencumbered. If we are successful in implementing our business plan, we could have 12 films or more going into our library annually that could have an extended shelf life in ancillary markets, including, but not limited to, cable, satellite and television syndication, both domestically and internationally, extended DVD s, special edition DVD s and other areas of repurposing.

RESULTS OF OPERATIONS

General

Our historical operations, as Dstage.com, Inc., consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. Due to the complete and drastic change in our business focus, from seeking to aid development stage companies to our current focus of producing, distributing and marketing original motion pictures, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you read the discussion in connection with the audited financial statements, the unaudited interim financial and the related notes included elsewhere in this quarterly report.

QUARTER ENDED JUNE 30, 2004 COMPARED TO QUARTER ENDED JUNE 30, 2003 AND SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003.

RESULTS OF OPERATIONS

The Company did not generate any revenue during the six months ended June 30, 2004 or the six months ended June 30, 2003.

All expenses incurred during the comparative periods were general and administrative in nature.

The Company has incurred \$3,186,156 of general and administrative expenses since its inception. General and administrative expenses were \$227,351 and \$359,032 for the three and six months ended June 30, 2004, respectively, compared to \$101,980 and \$147,980 for three and six months ended June 30, 2003, respectively.

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

The general and administrative expenses for the six months ended June 30, 2004 were primarily comprised of \$175,000 of officer compensation, \$103,800 in consulting fees, \$38,992 of accounting and legal expenses, \$16,014 in travel expenses and \$10,865 in dues and subscriptions.

Accounting, legal and compliance expenses were \$19,980 officer compensation was \$128,000 for the six months ended June 30, 2003.

The increase in the expenses incurred during the first six months of 2004 were directly related to the pursuit of the Company's plan of operation to produce and distribute motion pictures.

Consulting expenses of \$100,500 were incurred during the second quarter of 2004 and were comprised of 750,000 restricted common shares with a market value of \$97,500 issued to Corporate Awareness Professionals under an agreement and 100,000 restricted common shares with a market value of \$3,000 issued to an outside director for the preparation of the Company's tax returns.

Travel expenses and fees for dues and subscriptions to professional entertainment business organizations were incurred during the six months ended June 30, 2004 and were not incurred during the same period ended 2003. The expenses were incurred as a result of the Company's assertive efforts to network with entertainment professionals that could assist in further developing the progress of the plan of operation.

LIQUIDITY AND CAPITAL RESOURCES

We have no history of operations as a film production and distribution company. We believe that, due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance.

Our current liquidity and capital resources are provided principally through our financing agreement with Eagle Consulting Group, Inc. (Eagle). We entered into an agreement with Eagle on March 28, 2003, to provide operational funding for the Company. In exchange for twenty percent (20%) of the Company's outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, Eagle has agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. To date, Eagle has advanced the Company a total, including interest, of \$135,340. The funding commitment from Eagle should cover all of our operating expenses for the remaining six months of 2004.

In addition, we have entered into an agreement with Corporate Awareness Professionals, Inc. (CAP), which in part provides for the initial purchase of 1,675,000 shares of our \$.001 par value common stock through options priced at \$0.15 per share for \$251,250. In addition, CAP has the option to purchase an additional 1,000,000 shares at \$.50 per share for \$500,000. Upon purchasing those shares, CAP has the right to purchase up to a maximum of 10% more shares, or 100,000 shares, at \$.50 per share. If CAP exercises all its options, it should have purchased 2,775,000 total shares for \$801,250. As of the date of this quarterly report, CAP has not exercised any of its options. All options expire on March 30, 2005. There can be no guarantee that they will exercise any of their options, and in the event they do exercise some of their options, there can be no guarantee that they will exercise all of their options. As a result, the failure of CAP to exercise some or all of their options would have an adverse effect on us and our ability to commence production on our first two pictures.

Further, we are in the process of preparing an SB-2 registration statement for the purpose of funding our initial slate of pictures. If the anticipated funding is successful, it is our goal to have between 10 and 12 motion pictures in various stages of development or production within 12 months. In the event we are unable to complete the funding, we could have to delay our slate until such time as the necessary funding is acquired.

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Similarly, the efficiencies we aim to realize through our model may not materialize. Failure of the efficiencies to materialize, along with other risks germane to the picture production, may cause us to produce fewer films than our plan calls for.

FACTORS THAT MAY AFFECT FUTURE RESULTS

We have an Accumulated Deficit and we have no History of Operations as a Motion Picture Company

We have incurred losses in each operating period since our inception on October 12, 1999. Operating losses may continue, which could adversely affect financial results from operations and stockholder value, and there is a risk that we may never become profitable.

As of June 30, 2004, we have an accumulated deficit of \$6,418,474 all of which related to our previous activities as a business development organization, Dstage.com, and none of which relate to our current activities as a motion picture production, marketing and distribution entity. There can be no assurance that our management will be successful in managing the Company as a motion picture production, distribution and marketing concern.

We expect to have a need for Additional Financing

As of March 31, 2004, we had a working capital deficit of \$243,738. Our history of recurring losses from operations raises a substantial doubt about our ability to continue as a going concern. There can be no assurance that we will have adequate capital resources to fund planned operations or that any additional funds will be available to us when needed, or if available, will be available on favorable terms or in amounts required by us. If we are unable to obtain adequate capital resources to fund our motion picture operations, it may be required to delay, scale back or eliminate some or all of our operations, which may have a material adverse effect on our business, results of operations and ability to operate as a going concern.

Our business requires a substantial investment of capital. The production, acquisition and distribution of motion pictures require a significant amount of capital. A significant amount of time may elapse between our expenditure of funds and the receipt of commercial revenues from our motion pictures, if any. This time lapse requires us to fund a significant portion of our capital requirements from private parties, institutions, and other sources. Although we intend to reduce the risks of our production exposure through strict financial guidelines and financial contributions from broadcasters, sub-distributors, tax shelters, government and industry programs and studios, we cannot assure you that we will be able to implement successfully these arrangements or that we will not be subject to substantial financial risks relating to the production, acquisition, completion and release of future motion pictures. If we increase our production slate or our production budgets, we may be required to increase overhead, make larger up-front payments to talent and consequently bear greater financial risks. Any of the foregoing could have a material adverse effect on our business, results of operations or financial condition.

Competition is Severe in the Motion Picture Industry

The motion picture industry is highly competitive. Our management believes that a motion picture's theatrical success is dependent upon general public acceptance, marketing technology, advertising and the quality of the production. We intend to produce motion picture productions that normally should compete with numerous independent and foreign productions as well as productions produced and distributed by a number of major domestic companies, many of which are units of conglomerate corporations with assets and resources substantially greater than ours.

Our management believes that in recent years there has been an increase in competition in virtually all facets of the motion picture industry. With increased alternative distribution channels for many types of entertainment, the motion picture business competes more intensely than previously with all other types of entertainment activities as well as television. While increased use of pay per view television, pay television channels, and home video products are potentially beneficial, there is no guarantee that we will be able to successfully penetrate these markets. Failure to penetrate these potential distribution channels would have a material adverse impact on our results of operations.

Substantial Risks Germane to the Motion Picture Industry

The success of a single motion picture project is fraught with an unusually high degree of uncertainty and risk. Similarly, the probability of successfully completing a motion picture project is also laden with an unusually high degree of uncertainty and risks. A studio or independent producer's ability to finance a project, execute a successful distribution strategy, obtain favorable press and compete with an unknown quantity of competing releases are just some of the factors that impact the commercial success or failure of a film project. Our strategy involves producing a minimum of 12 motion pictures per year. While the intent is to reduce production risk through this strategy, our plan has the potential to compound risks germane to the industry.

Movie producers are often involved in several projects at the same time and an active film director is often presented with opportunities to direct many movies. In addition, independent contractors needed to produce the film often have commitments to more than one movie project. Because we may decide to replace key members of our production team if they are unable to perform their duties within our schedule, the marketing appeal of our film may be reduced.

If we do not complete a film on schedule or within budget, our ability to generate revenue may be diminished or delayed. Our success depends on our ability to complete the film on schedule and within budget.

Each film we produce and distribute should appeal to a given segment of society to achieve acceptance. Although our intent to target niche markets that should require less than broad market acceptance to achieve commercial success, there can be no assurance that this strategy will succeed.

Motion picture production and distribution is highly speculative and inherently risky. There can be no assurance of the economic success of any motion picture since the revenues derived from the production and distribution of a motion picture (which do not necessarily bear a direct correlation to the production or distribution costs incurred) depend primarily upon its acceptance by the public, which cannot be predicted. The commercial success of a motion picture also depends upon the acceptance of competing films released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with certainty. Further, the theatrical success of a motion picture is generally a key factor in generating revenues from other distribution channels. There is a substantial risk that some or all of our motion pictures will not be commercially successful, resulting in costs not being recouped or anticipated profits not being realized.

Theaters are more likely to exhibit feature films with substantial studio marketing budgets. Even if we are able to complete the films and obtain distribution, it is unclear how much should be spent on marketing to promote each film by our distributors.

All of these factors cannot be predicted with certainty. In addition, motion picture attendance is seasonal, with the greatest attendance typically occurring during the summer and holidays. The release of a film during a period of relatively low theater attendance is likely to affect the film's box office receipts adversely.

Distribution in Foreign Countries

We plan to license motion picture and television programming in foreign countries to sub-distributors. If we are at all successful in this regard, a portion of our revenues should be derived from foreign sources. Because of this, our business is subject to certain risks inherent in international trade, many of which are beyond our control. Such risks include, but are not limited to, changes in laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes), differing degrees of protection for intellectual property, the instability of foreign economies and governments and in some cases an adverse acceptance to a film may occur, resulting in a demand to renegotiate the license agreement's terms and conditions. In addition, fluctuations in foreign exchange rates may affect our results of operations.

Piracy of Original Motion Pictures we Plan to Produce may Reduce our Revenues and Potential Earnings

According to industry sources, piracy losses in the motion picture industry have increased substantially, from an estimated \$2.2 billion in 1997 to an estimated \$3.5 billion in 2002. In certain regions such as Asia, the former Soviet Union and South America, motion picture piracy has been a major issue for some time. With the proliferation of DVD format around the globe, along with other digital recording and playback devices, losses from piracy have spread more rapidly in North America and Europe. Piracy of original motion pictures we produce and distribute may adversely impact the gross receipts received from the exploitation of these films, which could have a material adverse effect on our business, results of operations or financial condition.

Fluctuation of Operating Results

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods.

In accordance with generally accepted accounting principles and industry practice, we intend to amortize film costs using the individual-film-forecast method under which such costs are amortized for each film in the ratio that revenue earned in the current period for such title bears to management's estimate of the total revenues to be realized from all media and markets for such title. To comply with this accounting principle, our management plans to regularly review, and revise when necessary, our total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film asset to net realizable value. Results of operations in future years should be dependent upon our amortization of film costs and may be significantly affected by periodic adjustments in amortization rates. The likelihood of the Company's reporting of losses is increased because the industry's accounting method requires the immediate recognition of the entire loss in instances where it is expected that a motion picture should not recover the Company's investment.

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Similarly, should any of our films be profitable in a given period, we should have to recognize that profit over the entire revenue stream expected to be generated by the individual film.

Film Production Budgets may Increase and Film Production Spending may Exceed such Budgets

Our future film budgets may increase due to factors including, but not limited to, (1) escalation in compensation rates of people required to work on our projects, (2) number of personnel required to work on our projects, (3) equipment needs, (4) the enhancement of existing or the development of new proprietary technology and (5) the addition of facilities to accommodate the growth of a studio. Due to production exigencies, which are often difficult to predict, it is not uncommon for film production spending to exceed film production budgets, and our projects may not be completed within the budgeted amounts. In addition, when production of each film is completed, we may incur significant carrying costs associated with transitioning personnel on creative and development teams from one project to another. These carrying costs increase overall production budgets and could have a material adverse effect on our results of operations and financial condition.

Our Anticipated Successive Releases of Films could Place a Significant Strain on our Limited Resources

We anticipate establishing parallel creative teams so that we can develop more than one film at a time. These teams are expected to work on future projects, as we move towards producing 12 films per year. Due to the anticipated strain on our personnel from the effort required for the release of an upcoming film and the time required for creative development of future films, it is possible that we would be unable to release twelve new films in the first year and in subsequent years. We may be required to expand our employee base, increase capital expenditures and procure additional resources and facilities in order to accomplish the scheduled releases of our films. This growth and expansion may place a significant strain on our resources. We cannot provide any assurances that any future film will be released as targeted or that this strain on resources will not have a material adverse effect on our business, financial condition or results of operations. As we move towards achieving 12 films a year, there will likely be additional demands placed on the availability of key people. A lack of availability of key people may adversely impact the success and timing of our future films.

We may implement a variety of new and upgraded operational and financial systems, procedures and controls, including improvement and maintenance of our accounting system, other internal management systems and backup systems. Our growth and these diversification activities, along with the corresponding increase in the number of our employees and our rapidly increasing costs, may result in increased responsibility for our management team. We may need to improve our operational, financial and management information systems, to hire, train, motivate and manage our employees, and to provide adequate facilities and other resources for them. We cannot provide any assurance we will be successful in accomplishing all of these activities on a timely and cost-effective basis. Any failure to accomplish one or more of these activities on a timely and cost-effective basis would have a material adverse effect on our business, financial condition and results of operations.

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

The decisions regarding the timing of theatrical releases and related products, the marketing and distribution strategy, and the extent of promotional support are important factors in determining the success of our motion pictures and related products. We may enter into agreements with third-parties to assist us in the marketing and distribution of our films, and we may require the marketers and distributors to consult with us with respect to all major marketing and distribution decisions. Said agreements may or may not include: (1) the manner in which distributors may distribute our films and related products; (2) the number of theaters to which our films are distributed; (3) the specific timing of release of our films and related products; or (4) the specific amount or quality of marketing and promotional support of the films and related products as well as the associated promotional and marketing budgets.

Terrorist Activities and Resulting Military and other Actions could Adversely Affect our Business

The continued threat of terrorism within the United States and abroad, military action and heightened security measures in response to such threats, as well as other socioeconomic and political events, may cause significant disruption to commerce, including the entertainment industry, throughout the world. For example, the terrorist attacks in New York and Washington, D.C. on September 11, 2001 disrupted commerce throughout the United States and Europe. Such disruption in the future could have a material adverse effect on our business and results of operations.

We are Smaller and Less Diversified than Many of our Competitors.

Although we plan to be an independent distributor and producer, we expect to constantly compete with major U.S. and international studios. Most of the major U.S. studios are part of large diversified corporate groups with a variety of other operations, including television networks and cable channels that can provide both means of distributing their products and stable sources of earnings that may allow them better to offset fluctuations in the financial performance of their motion picture and television operations. In addition, the major studios have more resources with which to compete for ideas, storylines and scripts created by third parties as well as for actors, directors and other personnel required for production. The resources of the major studios may also give them an advantage in acquiring other businesses or assets, including film libraries, that we might also be interested in acquiring. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

The Motion Picture Industry is Highly Competitive and at Times may Create an Oversupply of Motion Pictures in the Market.

The number of motion pictures released by our competitors, particularly the major U.S. studios, may create an oversupply of product in the market, reduce our share of box office receipts and make it more difficult for our films to succeed commercially once we begin to produce, market and distribute our films. Oversupply may become most pronounced during peak release times, such as school holidays and national holidays, when theater attendance is expected to be highest. For this reason, and because of our more limited production and advertising budgets, we plan to not release our films during peak release times, which may also reduce our potential revenues for a particular release. Moreover, we cannot guarantee that we can release all of our films when they are otherwise scheduled. In addition to production or other delays that might cause us to alter our release schedule, a change in the schedule of a major studio may force us to alter the release date of a film because we cannot always compete with a major studio's larger promotion campaign. Any such change could adversely impact a film's financial performance. In addition, if we cannot change our schedule after such a change by a major studio because we are too close to the release date, the major studio's release and its typically larger promotion budget may adversely impact the financial performance of our film. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

The limited supply of motion picture screens compounds this product oversupply problem. Currently, a substantial majority of the motion picture screens in the U.S. typically are committed at any one time to only ten to 15 films distributed nationally by major studio distributors. In addition, as a result of changes in the theatrical exhibition industry, including reorganizations and consolidations and the fact that major studio releases occupy more screens, the number of screens available to us when we want to release a picture may decrease. If the number of motion picture screens decreases, box office receipts, and the correlating future revenue streams, such as from home video and pay and free television, of our motion pictures may also decrease, which could have a material adverse effect on our business, results of operations or financial condition.

We May Not be Able to Obtain Additional Funding to Meet our Requirements

Our ability to grow our company through acquisitions, business combinations and joint ventures, to maintain and expand our development, production and distribution of motion pictures and to fund our operating expenses will depend upon our ability to obtain funds through equity financing, debt financing (including credit facilities) or the sale or syndication of some or all of our interests in certain projects or other assets. If we do not have access to such financing arrangements, and if other funding does not become available on terms acceptable to us, there could be a material adverse effect on our business, results of operations or financial condition.

We Face Risks from Doing Business Internationally

We may distribute motion picture productions outside the United States through third party licensees and derive revenues from these sources. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include changes in local regulatory requirements, including restrictions on content; changes in the laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes); differing degrees of protection for intellectual property; instability of foreign economies and governments; cultural barriers; wars and acts of terrorism. Any of these factors could have a material adverse effect on our business, results of operations or financial condition.

Leverage Risks

The degree to which we might become leveraged may require us to dedicate a substantial portion of our cash flow to the payment of principal of, and interest on, our indebtedness, reducing the amount of cash flow available to fund film production costs and other operating expenses. Additionally, the degree to which we might become leveraged may adversely affect our ability to obtain additional financing, if necessary, for such operating expenses, to compete effectively against competitors with greater financial resources, to withstand downturns in our business or the economy generally and to pursue strategic acquisitions and other business opportunities that may be in the best interests of us and our stockholders.

ITEM 3. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our management concluded that our disclosure controls and procedures are effective and timely alerting them to material information relating to the Company required to be included in our periodic SEC filings.

There were no significant changes in our internal controls over financial reporting or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies or material weaknesses.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGE IN SECURITIES

On June 1, 2004, the Company issued 100,000 restricted common shares at a market value of \$.03 per share based on the resolution date of February 2, 2004 to an outside director for accounting services provided. The issuance of the stock was exempt from registration under Section 4(2) of the Securities Act. No underwriter was involved in the offer of sale of the shares.

Also, on June 1, 2004, the Company issued 750,000 restricted common shares at a market value of \$.13 per share to an investor relations consulting firm. The issuance of the stock was exempt from registration under Section 4(2) of the Securities Act. No underwriter was involved in the offer of sale of the shares.

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

On June 30, 2004, the Company issued 11,105,755 restricted common shares to its Chief Executive Officer and 4,442,296 restricted common shares to its Chief Financial Officer. The shares were issued at the value at the time service was performed during 2003 and the first quarter of 2004 and averaged \$.028 per share. The issuance of the stock was exempt from registration under Section 4(2) of the Securities Act. No underwriter was involved in the offer of sale of the shares.

Also on June 30, 2004, the Company issued 4,637,867 restricted common shares to Eagle Consulting Group, Inc. in accordance with its agreement with the Company. The shares were issued in part for consideration of \$47,670 of cash advanced during the second quarter of 2004. The issuance of the stock was exempt from registration under Section 4(2) of the Securities Act. No underwriter was involved in the offer of sale of the shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS

On April 15, 2004, the date of the written consent to action by the holders of a majority of common and preferred stock by special meeting, there were 40,747,720 shares of common stock outstanding. Holders of common stock were entitled to one vote per share. A total of 31,247,771 shares representing 76% of the outstanding shares of voting stock of the Company s as of the Record Date, representing more than a majority of its outstanding voting stock, delivered written consents to all of the following matters:

1. To change the name of the Company to Camelot Entertainment Group, Inc.;
2. To amend the Company s Articles of Incorporation to increase the number of authorized shares from a total of 50,000,000 with 50,000,000 being common shares with a par value of \$.001 and no preferred shares to a total of 200,000,000 with 150,000,000 being common shares with a par value of \$.001 and 50,000,000 being preferred shares with a par value of \$.001; and
3. To approve adoption of our 2004 Stock Option Plan, which provides for the grant of stock options to purchase up to 50,000,000 shares of common stock to officers, directors, employees and consultants.

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

10.1 Definitive Agreement with Eagle Consulting Group dated March 30, 2004.

31.1 Certification Pursuant to the 18 U.S.C. section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

31.2 Certification Pursuant to the 18 U.S.C. section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

32.1 Certification Pursuant to the 18 U.S.C. section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

b. Reports on Form 8-K

Announcement of shareholder approval increasing authorized common shares to 150,000,000 and authorized preferred shares to 50,000,000 incorporated by reference to Exhibit 6(b) on Form 8-K filed June 30, 2004.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

CAMELOT ENTERTAINMENT GROUP, INC.
(Registrant)

/S/ ROBERT P. ATWELL
Robert P. Atwell
Chief Executive Officer

/S/ ALBERT GOLUSIN
Albert Golusin
Chief Financial Officer

August 16, 2004

EXHIBIT 31

Page - 38

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Certifications

I, Robert P. Atwell, certify that:

1. I have reviewed this quarterly report on Form 10-QSB Camelot Entertainment Group, Inc
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 16, 2004

/s/ ROBERT P. ATWELL
Robert P. Atwell
President and Chief Executive Officer

Certifications

I, Albert Golusin, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Camelot Entertainment Group, Inc.:

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 16, 2004

/s/ ALBERT GOLUSIN
Albert Golusin
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Dstage.com Inc , a Delaware corporation (the "Company"), on Form 10-QSB for the quarter ending June 30, 2004 as filed with the Securities and Exchange Commission (the "Report"), we, Robert P. Atwell, Chief Executive Officer of the Company and Albert Golusin, Chief Financial Officer of the Company, respectively certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ ROBERT P. ATWELL

Robert P. Atwell

President and Chief Executive Officer

August 16, 2004

/s/ ALBERT GOLUSIN

Albert Golusin

Chief Financial Officer

August 16, 2004

EXHIBIT 10.1

DEFINITIVE AGREEMENT
BETWEEN
EAGLE CONSULTING GROUP, INC.
AND
DSTAGE.COM, INC.
MARCH 30, 2004

Page - 43

THIS DEFINITIVE AGREEMENT (Agreement) is made and entered into in duplicate this 30th day of March, 2004, by and between Dstage.com, Inc., a Delaware corporation, its subsidiaries and its affiliates (Dstage), on the one hand and Eagle Consulting Group, Inc., a Nevada corporation and its affiliates (Eagle), on the other hand.

RECITALS

WHEREAS, Dstage entered into a binding Letter of Intent (LOI) with Eagle on March 28, 2003, attached hereto as Exhibit A, whereby Eagle agreed to provide certain services and monetary support, including assisting Dstage in positioning itself to receive financing, provide securities administrative services, general business consulting, and sales and marketing services; and

WHEREAS, Eagle agreed to advance monies to Dstage from time to time until such time as Dstage secures additional sources of financing; and

WHEREAS, Eagle provided Dstage with the necessary funding to complete its 2002 audit and Form 10KSB filing with the Securities and Exchange Commission per the LOI; and

WHEREAS, Eagle provided and continues to provide Dstage with the necessary funding to retire certain accounts payable as mutually agreed upon; and

WHEREAS, Dstage entered into a Consulting Agreement with The Corporate Solution, Inc. per the LOI; and

WHEREAS, Eagle has received twenty per cent (20%) of Dstage s outstanding \$.001par value common stock (Shares) on a non-dilutive basis for providing funding as described in the LOI; and

WHEREAS, Eagle has received Shares for the Note it held from Dstage; and

WHEREAS, this Agreement shall include all provisions of the LOI, including all exhibits and all agreements between Dstage and The Corporate Solution and between Dstage and Eagle.

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL PROMISES, COVENANTS AND UNDERTAKINGS SPECIFIED HEREIN AND FOR OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED, WITH THE INTENT TO BE OBLIGATED LEGALLY AND EQUITABLY, THE PARTIES AGREE WITH EACH OTHER AS FOLLOWS:

- 1. Incorporation of Recitals.** The recitals of this Agreement specified above, by this reference, are made a part of this Agreement.
- 2. Ratification of Acts of Dstage.** Dstage, by its signature and delivery of this Agreement, hereby unconditionally and irrevocably, hereby consents to, affirms, confirms, and ratifies each and every action taken by Dstage for the benefit of Dstage as Dstage s own act and deed.
- 3. Ratification of Acts of Eagle.** Eagle, by its signature and delivery of this Agreement, hereby unconditionally and irrevocably, hereby consents to, affirms, confirms, and ratifies each and every action taken by Eagle for the benefit of Eagle as Eagle s own act and deed.
- 4. Term of Agreement.** This Agreement shall be in full force and effect commencing upon March 28, 2003 and concluding at the close of business on the same date in 2008. The respective duties and obligations of the parties shall commence on the date specified in the Preamble of this Agreement and shall continue until the close of business on the same date in 2008. In the event that during the term of this Agreement as defined herein Dstage s net worth before taxes exceeds Five Million Dollars (\$5,000,000), Eagle may, at its sole option, extend this Agreement for an additional five-year period. In the event that during the term of this Agreement, including any extension(s), as defined herein, Dstage s net worth before taxes exceeds Ten Million Dollars (\$10,000,000), Eagle may, at its sole option, extend this Agreement, including any previous extension(s), for an additional five year period. In the event that during the term of this Agreement, including any previous extension(s), as defined herein Dstage s net worth before taxes exceeds Twenty Million Dollars (\$20,000,000), Eagle may, at its sole option, extend this Agreement, including any previous extension(s), for an additional five year period. Notwithstanding anything in this Agreement to the contrary, in the event Eagle exercises its right to extend this Agreement for one or more periods as defined herein, the extension by Eagle of this Agreement as described herein shall not in any way diminish, affect or compromise Eagle s rights to consideration as specified in this Agreement, and all terms and conditions contained herein shall remain in effect and in full force throughout the term of this Agreement and any extensions thereto.

5. **Services.** Eagle shall make appropriate personnel available to consult with the Board, the officers of Dstage, and the department heads of the administrative staff of Dstage, at reasonable times, concerning matters relating to any issue of importance regarding the business affairs of Dstage, including, but not limited to, securities administration, general business consulting, sales and marketing and assisting Dstage in positioning itself to receive financing.
6. **Funding.** Eagle will provide Dstage with the required funding to complete its annual audits, annual and quarterly reports in accordance with rules and regulations established by the Securities and Exchange Commission. Eagle will advance funds to Dstage or on behalf of Dstage from time to time as mutually agreed upon to insure the continued viability of Dstage. Eagle will provide Dstage with funding to retire accounts payable as mutually agreed upon. Eagle will also provide Dstage with additional funding as mutually agreed upon to take care of any on-going obligations. Eagle will continue to provide the funding as described herein until such time as Dstage secures additional sources of financing or until Dstage becomes financially stable on its own as a result of revenues generated by operations.
7. **Management Authority; Independent Contractor Status.** Eagle shall have no management authority of or for Dstage. Dstage's officers will conduct the business affairs of Dstage, which affect, directly or indirectly, the operation of business of Dstage and which arise in the ordinary course of business. All the members of Dstage's administrative staff shall be employees of Dstage. Eagle shall have no control or charge of the administrative staff and no control or authority to employ, discharge, direct, supervise, or control any member of the administrative staff or other employee of Dstage. It is the intention of Dstage not to confer on Eagle any power of direction, management, supervision, or control of the administrative staff or other employee of Dstage. Dstage is interested only in the results obtained by Eagle, who shall have the sole control of the manner and means of performing the Services under this Agreement. Dstage shall not have the right to require Eagle to collect accounts, investigate customer complaints, attend meetings, periodically report to Dstage, follow prescribed itineraries, keep records of business transacted, make adjustments, conform to particular policies of Dstage, or do anything else which would jeopardize the relationship of independent contractor between Dstage and Eagle. Notwithstanding the foregoing, the parties hereto acknowledge that Eagle, upon receipt of the consideration contemplated herein, and due to related party disclosures, will become an affiliate of Dstage as defined in the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act") and would remain an affiliate until such time as Eagle's stock ownership and or change in related party status would thereby necessitate a change in Eagle's affiliate status.
8. **No Power of Eagle to Act as Agent.** Eagle shall have no right, power or authority to be, or act, as an agent of Dstage for any purpose whatsoever. In that regard, Eagle shall not attempt or purport to obligate Dstage to any obligation or agreement.
9. **Limited Liability.** With regard to the services to be performed by Eagle pursuant to the provisions of this Agreement, Eagle shall not be liable to Dstage, or to any person who may claim any right because of that person's relationship with Dstage, for any acts or omissions in the performance of said services on the part of Eagle or on the part of the agents or employees of Eagle, except when said acts or omissions of Eagle are due to Eagle's gross negligence. Eagle makes no warranties, representations or guarantees regarding any financing attempted by Dstage or the eventual effectiveness of the services provided by Eagle. Dstage shall hold Eagle and the agents and employees of Eagle free and harmless from any and all obligations, costs, claims, judgements, attorneys fees, and attachments arising from or growing out of the services rendered to Dstage pursuant to the provisions of this Agreement or in any way connected with or relating to the rendering of said services, except when the same shall arise because of the gross negligence of Eagle, and Eagle is adjudged to be guilty of the gross negligence by a court of competent jurisdiction.
10. **Cash Consideration.**
- a. Eagle shall not receive cash consideration from Dstage during the Term.

11. **Stock Consideration.**

1. Eagle shall receive twenty per cent (20%) of the outstanding \$0.001 par value common stock of Dstage (Shares) on a non-dilutive basis during the Term. The exact number of Shares and the issuance dates thereof shall be mutually determined by Dstage and Eagle. The Shares will be duly authorized, fully paid, non-assessable and will contain other customary terms and conditions, including piggyback registration rights.
2. In the event Dstage issues Shares to third parties other than Eagle in the future for cash, acquisitions, technology or real property, and the value thereof can be audited and verified in a manner acceptable to Eagle, then those specific Shares shall not be included in the computation of Shares due Eagle per Section 11 (a) herein.
3. Eagle shall receive 20,000,000 Shares in exchange for its Note with Dstage for \$200,000. The Share value has been determined by fifty per cent (50%) of the average bid price of the Shares, which has been established at \$.02 per share.
4. Dstage and Eagle hereby agree and confirm that the effective date of any issuance of Shares to Eagle in connection herewith (Share Effective Date) shall be the earliest of either (i) the date the services in any given calendar year began; (ii) the date monies are first transferred to or advanced on behalf of Dstage in accordance with the terms and conditions herein; or (iii) a date mutually agreed upon by the parties hereto.

12. **Options.** As additional consideration, Eagle shall be entitled to receive Two Million Cashless Options (Options) to purchase Shares at a price per share equal to the average bid price for the Shares during the first year of the Term. For each one dollar (\$1) increase in the price of Dstage s stock, Eagle shall be entitled to receive an additional Two Million Options throughout the Term. The Options will be duly authorized, fully paid and non-assessable and will contain other customary terms and conditions, including piggyback registration rights for the underlying Shares. In addition, Dstage shall have the first right of refusal to purchase the Options from Eagle for the current market value once Eagle notifies Dstage that it intends to exercise the Options. Dstage will have ten (10) business days to exercise this first right of refusal to purchase the Options at the current market value of the underlying Shares. For the sole purpose of this Section 12, the current market value shall be defined as the average trading price of the Shares during the preceding five (5) days prior to receiving the notification from Eagle. In the event Dstage elects not to exercise this first right of refusal, and subject to applicable laws, Eagle shall be entitled to exercise the sale of shares or options immediately thereafter.

13. **Expenses.** All expenses incurred by Eagle in connection herewith are covered by the Stock Consideration provided for in Section 11 (a) herein.

14. **Payment upon Termination.** In the event this Agreement is terminated due to the expiration of the Term or for any other reason, the terms and conditions of Section 10, 11, 12 and 13 of this Agreement shall remain in full force and effect until such time as Eagle has been paid in full in accordance herewith. This Agreement shall be terminated 30 days after written notice of termination is given by either party at any time after May 10, 2004, provided however, that if Dstage shall terminate this Agreement pursuant to this Section 14 for any reason other than Eagle s material breach of this Agreement (having given prior notice of, and reasonable opportunity for Eagle to cure, any such breach), Dstage shall issue all Shares due Eagle in connection herewith within five business days of Termination and all Shares issued to Eagle in connection with this Agreement shall be non-dilutive and not subject to any future reverse or any other type of reverse split of the common stock by Dstage.

15. **Minimum Amount of Service.** During the Term, Eagle shall devote as much time to the affairs and goals of Dstage as Eagle, with the approval of Dstage, determines to be necessary or appropriate as long as consultant is being compensated in manner described herein; Eagle may represent, perform services for, and be employed by, any additional companies or persons as Eagle, in Eagle's sole discretion, determines to be necessary or appropriate.

16. **Payment of Fees and Additional Compensation.** Notwithstanding anything to the contrary contained herein, the provisions concerning Dstage's obligations to pay fees, issue warrants, options, stock and pay or reimburse expenses contained herein will survive any such expiration or termination of this Agreement.

17. **Board of Directors.** Eagle shall be entitled to designate a representative to fill a minimum of one (1) seat on Dstage's Board of Directors. Nothing contained within this paragraph shall diminish or effect the status of Eagle in relationship to Dstage as defined in Section 7, 8 and 9 herein.

18. **Dstage to Provide.** Dstage will engage counsel and certified public accountants to assist in the preparation of any and all offering memorandums, including Private Placement Memorandums, IPO s and registration documents, who are experienced, competent and current in matters of securities law and disclosure requirements. All of the financial statements of Dstage contained in any offering memorandum will be prepared in accordance with Generally Accepted Accounting Principles and the latest annual financial statement will have been audited. The financial information in any offering memorandum and otherwise available to Eagle must demonstrate to the satisfaction of Eagle that Dstage will be able to meet all of its financial responsibilities and will be a going concern once funding requirements are met. Counsel for Dstage will be required to give its opinion as to matters normally expected in a securities offering, including, but not limited to, due authorization, qualification to do business and good standing, no litigation, and 10b-5 compliance of the offering memorandum. All of the terms and conditions of any offering memorandum(s) prepared, if any, are subject to the approval of Eagle and Dstage.

19. **Exclusivity.** During the term of this Agreement, Dstage shall not directly or indirectly initiate any discussions, negotiations or other contacts, or solicit any inquiries or indications, concerning the financing needs of Dstage with any other party without first notifying Eagle and further including Eagle and or Eagle s representative in those discussions, negotiations or other contacts. Dstage shall promptly furnish Eagle with the names of all parties that Dstage, its directors, officers and its controlling shareholders have conducted any discussions with, received inquiries from, or had any other contacts with, prior to the date hereof, concerning an investment or other financing activity in Dstage and shall promptly inform Eagle of the identity of any third party that subsequently makes any such inquiry or whose interest in a possible investment in the investment or other financing activity subsequently becomes known to Dstage.

20. **Change of Control.** Any provision of this Agreement to the contrary notwithstanding, in the event Dstage experiences either a change in control transaction, including, but not limited to, a merger, acquisition or sale of a controlling interest in Dstage, the terms and conditions of this Agreement shall remain in effect and in full force, and such action by Dstage shall not in any way diminish, affect or compromise Eagle s rights, including but not limited to, all consideration as described in Sections 10, 11, and 12 herein, as specified in this Agreement.

21. **Managing Underwriter.** Dstage agrees that in any public offering of Dstage s stock undertaken within the term of this Agreement, Eagle may designate the managing underwriter for such offering to whom Dstage has no reasonable objection, which shall be on such terms and with such compensation to the underwriter and having such conditions that are acceptable to Dstage.

22. **Hold Harmless.** Dstage and Eagle also mutually agree to indemnify and hold harmless each party and each of its affiliates, counsel, stockholders, directors, officers, employees and controlling persons, within the meaning of Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, for any violations of state or federal securities laws by either party or any of its officers, other employees, agents, affiliates, counsel, stockholders, directors, and controlling persons.

23. **Corporate Documents.** Dstage will provide and deliver to Eagle all documents, appraisals, projections, financial data, and other information, collectively referred to herein as Information , reasonably requested by Eagle for the purpose of rendering services hereunder. All Information provided by Dstage shall be accurate and complete, in all material respects, and Dstage recognizes and confirms that (a) Eagle will use and rely on the Information without having independently verified all of the same and (b) Eagle does not assume responsibility for the accuracy or completeness of the Information.

24. **Corporate Disclosure.** Dstage shall use its best efforts to disclose to Eagle all material events and developments that have occurred prior to the date of this Agreement and that occur subsequent to the date hereof relating to Dstage s financial condition, operations or prospects. During the term hereof Dstage will promptly notify Eagle of any material event or development relating to the financial condition, business operations or business prospects of Dstage and promptly deliver to Eagle copies of all material filings made by Dstage with any regulatory agency and copies of all press releases issued by Dstage and make available same for inspection by Eagle, prior to the delivery to Eagle by Dstage of same, during regular business hours and upon 24 hours notice by Eagle.

25. **Confidentiality**. Eagle agrees to keep confidential all material, non-public information provided to it by Dstage, except as required by law or as contemplated by the terms of this Agreement. Notwithstanding anything to the contrary herein, Eagle may disclose non-public information to its agents and advisors whenever Eagle determines that such disclosure is necessary or advisable to provide the services contemplated hereunder. Eagle shall inform all parties who receive disclosure of non-public information or who have access to such information of the obligation of confidentiality, and shall inform Dstage of any disclosure of non-public information to any party other than Eagle's independent public accountants or attorneys.

26. **Advertisements**. In the event that Eagle finds itself in a position to make a newsworthy announcement, Eagle will have the right to place advertisements in various media outlets, including, but not limited to, print publications, the Internet, direct mail, radio, television, satellite, or cable, describing its services to Dstage hereunder; provided, however, that Eagle will submit copies of such advertisements to Dstage so that Dstage may consent to the form of such advertisements, which consent shall not be unreasonably withheld or delayed.

27. **Failure to act by One Person**. Any direction or consultation given or service performed by one of the persons acting on behalf of Eagle, pursuant to the provisions of this Agreement, shall constitute the direction or consultation or the performance of service of Eagle. If, for any reason, any person acting on behalf of Eagle is unable or unwilling to act or perform pursuant to the provisions of this Agreement, that event shall not void this Agreement or diminish its effect, and the performance by any person acting on behalf of Eagle shall constitute full and complete performance of this Agreement on the part of Eagle.

28. **Indemnification**.

a. In addition to the limitation of liability found in Section 9 and the hold harmless provisions of Section 19 of this Agreement, each party shall save the other party harmless from and against and shall indemnify the other for any and all liabilities, losses, costs, expenses, or damages howsoever caused by reason of any injury (whether to body, property, or personal or business character or reputation) sustained by any person or to any person or to property by reason of any act, neglect, default, or omission of a party.

b. In the event Eagle is sued in any court for damages by reason of Eagle's relationship with Dstage as a result of any misrepresentation or misconduct by Dstage, Dstage shall defend that court action (or cause that court action to be defended), at Dstage's sole expense and Dstage shall pay and discharge any judgment that may be rendered in any such court action. In the event Dstage fails or neglects to defend Eagle in any such court action, Eagle may defend such court action and any expenses, including attorney's fees, which Eagle may pay or incur in defending any such court action and the amount of any judgment which Eagle may be required to pay shall be reimbursed promptly by Dstage to Eagle upon demand therefore by Eagle.

c. In the event Dstage is sued in any court for damages by reason of Dstage's relationship with Eagle as a result of any misrepresentation or misconduct by Eagle, Eagle shall defend that court action (or cause that court action to be defended), at Eagle's sole expense and Eagle shall pay and discharge any judgment that may be rendered in any such court action. In the event Eagle fails or neglects to defend Dstage in any such court action, Dstage may defend such court action and any expenses, including attorney's fees, which Dstage may pay or incur in defending any such court action and the amount of any judgment which Dstage may be required to pay shall be reimbursed promptly by Eagle to Dstage upon demand therefore by Dstage.

d. Notwithstanding the foregoing, neither party may be indemnified by the other for acts determined by a court of competent jurisdiction to be the fault of the indemnified party.

29. **Equitable Remedies**. As a result of the uniqueness of the services to be performed by Eagle for Dstage, and because Eagle's reputation in the community may be affected by the financial success or failure of Dstage, in addition to the other rights and remedies that Eagle may have for a breach of this Agreement, Eagle shall have the right to enforce this Agreement, in all of its provisions, specific performance, or other relief in a court or equity.

30. **Eagle s Representatives.** Eagle shall have the right to appoint or otherwise designate suitable and desirable employees, agents and representatives (Eagle s Representatives). Eagle shall be solely responsible for Eagle s Representatives and their acts. Eagle s Representatives shall be at Eagle s own risk, expense and supervision, and Eagle s Representatives shall not have any claim against Dstage for salaries, commissions, items of cost, or other form of compensation or reimbursement. Eagle represents, warrants, and covenants that Eagle s Representatives shall be subordinate to Eagle and subject to each and all of the terms, provisions and conditions applying to Eagle specified in this Agreement.

31. **Recovery of Litigation Costs.** If any legal or equitable action or other proceeding is commenced for the enforcement or interpretation of this Agreement, or because of an alleged dispute, breach, default or misrepresentation regarding any of the provisions of this Agreement, the successful or prevailing party in such action or proceeding shall be entitled to recover reasonable attorneys fees and all costs incurred in such action or proceeding, in addition to any other relief to which such party may be entitled.

32. **Governmental Rules and Regulations.** The provisions of this Agreement are subject to any and all present and future orders, rules and regulations of any duly constituted authority having jurisdiction of the relationship contemplated by the provisions of this Agreement.

33. **Notices.** All notices, requests, demands or other communications pursuant to this Agreement shall be in writing or by telex or facsimile transmission and shall be deemed to have been duly given (i) on the date of service, if delivered in person or by telex or facsimile transmission (with the telex or facsimile confirmation of transmission receipt acting as confirmation of service when sent and provided telexed or telecopied notices are also mailed by first class, certified or registered mail, postage prepaid); or (ii) 48 hours after mailing by first class, registered or certified mail, postage prepaid, and properly addressed as follows:

If to Dstage: Dstage.com, Inc.
668 North 44th Street
Phoenix, AZ 85008
Telecopier: 602.267.7400

If to Eagle: Eagle Consulting Group, Inc.
318 North Carson Street Suite 208
Carson City, NV 89701
Telecopier: 909.471.0829

or at such other address as the party affected may designate in a written notice to such other party in compliance with this paragraph.

34. **Entire Agreement.** This Agreement supersedes any and all other agreements, either oral or in writing, between the parties regarding the subject matter of this Agreement and specifies all the covenants and agreements between the parties with respect to that subject matter, and each party acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not specified in this Agreement; and any other agreement, statement or promise concerning the subject matter specified in this Agreement shall be of no force or effect in a subsequent modification in writing signed by the party to be charged.

35. **Severability.** In the event any part of this Agreement, for any reason, is determined to be invalid, such determination shall not affect the validity of any remaining portion of this Agreement, which remaining portion shall remain in complete force and effect as of this Agreement had been executed with the invalid portion of this Agreement eliminated. It is hereby declared the intention of the parties that the parties would have executed the remaining portion of this Agreement without including any such part, parts or portion which, for any reason, hereafter may be determined invalid.

36. **Captions and Interpretation.** Captions of the paragraphs of this Agreement are for convenience and reference only, and the words contained in those captions shall in no way be held to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions of this Agreement. The language in all parts to this Agreement, in all cases, shall be construed in accordance with the fair meaning of that language as if that language was prepared by all parties and not strictly for or against any party.
37. **Further Assurances.** Each party shall take any and all action necessary, appropriate or advisable to execute and discharge such party's responsibilities and obligations created by the provisions of this Agreement and to further effectuate, perform and carry out the intents and purposes of this Agreement and the relationship contemplated by the provision of this Agreement.
38. **Number and Gender.** Whenever the singular number is used in this Agreement, and when required by the context, the same shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders, and vice versa; and the word person shall include corporation, firm, trust, association, governmental authority, municipality, association, sole proprietorship, joint venture, association, organization, estate, joint stock company, partnership, or other form of entity.
39. **Execution in Counterparts.** This Agreement may be prepared in multiple copies and forwarded to each of the parties for execution. This Agreement shall become effective when Eagle receives a copy or copies of this Agreement executed by the parties in the names as those names appear at the end of this Agreement. All of the signatures of the parties may be affixed to one copy or to separate copies of this Agreement and when all such copies are received and signed by all the parties, those copies shall constitute one agreement, which is not otherwise separable or divisible. Eagle shall keep all of such signed copies and shall conform one copy to show all of those signatures and the dates thereof and shall mail a copy of such conformed copy to each of the parties within thirty (30) days after the receipt by such counsel of the last signed copy, and shall cause one such conformed copy to be filed in the principal office of Eagle.
40. **Successors and Assigns.** This Agreement and each of the provisions of this Agreement shall obligate and inure to the benefit the heirs, executors, administrators, successors and assigns of each of the parties; provided, however, nothing specified in this paragraph shall be a consent to the assignment or delegation by any party of such party's respective rights and obligations created by the provisions of this Agreement.
41. **Reservation of Rights.** The failure of any party at any time hereafter to require strict performance by any other party of any of the warranties, representations, covenants, terms, conditions and provisions specified in this Agreement shall not waive, affect or diminish any right of such failing party to demand strict compliance and performance therewith and with respect to any other provisions, warranties, terms and conditions specified in this Agreement. Any waiver of any default not waive or affect any other default, whether prior or subsequent thereto, and whether the same or of a different type. None of the representations, warranties, covenants, conditions, provisions and terms specified in this Agreement shall be deemed to have been waived by any act or knowledge of either party or such party's agents, officers or employees, and any such waiver shall be made only by an instrument in writing, signed by the waiving party and directed to each non-waiving party specifying such waiver. Each party reserves such party's rights to insist upon strict compliance with the terms, conditions, warranties, obligations, representations, covenants and provisions of this Agreement at all times.
42. **Concurrent Remedies.** No right or remedy specified in this Agreement conferred on or reserved to the parties is exclusive of any other right or remedy specified in this Agreement or by law or equity provided or permitted; but each such right and remedy shall be cumulative of, and in addition to, every other right and remedy specified in this Agreement or now or hereafter existing at law or in equity or by statute or otherwise, and may be enforced concurrently therewith or from time to time. The termination of this Agreement for any reason whatsoever shall not prejudice any right or remedy which either party may have, either at law, in equity or pursuant to the provisions of this Agreement.

43. **Choice of Law and Consent to Jurisdiction.** This Agreement shall be deemed to have been entered into in the County of Carson, State of Nevada, and all questions concerning the validity, interpretation or performance of any of the terms, conditions and provisions of this Agreement or of any of the rights or obligations of the parties shall be governed by, and resolved in accordance with, the laws of the State of Nevada. Any and all actions or proceedings, at law or in equity, to enforce or interpret the provisions of this Agreement shall be litigated in courts having situs within the State of Nevada, and each party hereby consents expressly to the jurisdiction of any local, state or federal court located within the County of Carson, State of Nevada and consents that any service of process in such action or proceeding may be made by personal service upon such party wherever such party may be then located, or by certified or registered mail directed to such party at such party's last known address.

44. **Assignability.** Neither party shall sell, assign, transfer, convey or encumber this Agreement or any right or interest in this Agreement or pursuant to this Agreement, or suffer or permit any such sale, assignment, transfer or encumbrance to occur by operation of law without the prior written consent of the other party. In the event of any sale, assignment, transfer or encumbrance consented to by such other party, the transferee or such transferee's legal representative shall agree with such other party in writing to assume personally, perform and be obligated by the covenants, obligations, warranties, representations, terms, conditions and provisions specified in this Agreement.

45. **Continuing Provisions.** Notwithstanding anything to the contrary contained herein, the provisions concerning confidentiality, indemnification, contribution and Dstage's obligations to pay fees and pay or reimburse expenses contained herein and in the indemnification provisions hereof will survive any such expiration or termination of this Agreement.

46. **Force Majeure.**

a. If any party is rendered unable, completely or partially, by the occurrence of any event of force majeure (hereinafter defined) to perform such party's obligations created by the provisions of this Agreement, other than the obligation to make payments of money, such party shall give to the other party prompt written notice of the event of force majeure with reasonably complete particulars concerning such event; thereupon, the obligations of the party giving such notice, so far as those obligations are affected by the event of force majeure, shall be suspended during, but no longer than, the continuance of the event of force majeure. The party affected by such event of force majeure shall use all reasonable diligence to resolve, eliminate and terminate the event of force majeure as quickly as practicable.

b. The requirement that an event of force majeure shall be remedied with all reasonable dispatch as herein above specified, shall not require the settlement of strikes, lockouts or other labor difficulties by the party involved, contrary to such party's wishes, and the resolution of any and all such difficulties shall be handled entirely within the discretion of the party concerned.

c. The term force majeure as used herein shall be defined as and mean any act of God, strike, civil disturbance, lockout or other industrial disturbance, act of the public enemy, war, blockage, public riot, earthquake, tornado, hurricane, lightning, fire, public demonstration, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause or event, whether of the kind enumerated specifically herein, or otherwise, which is not reasonably within the control of the party claiming such suspension.

47. **Definitions.** Capitalized terms used in this Agreement are defined throughout the Agreement. Terms not defined therein shall be given their plain English meaning; provided, however, that those terms, acronyms and phrases known in general business which are not defined shall be interpreted in accordance with their generally accepted general business meaning.

48. **Consent to Agreement.** By executing this Agreement, each party, for itself, represents such party has read or caused to be read this Agreement in all particulars, and consents to the rights, conditions, duties and responsibilities imposed upon such party as specified in this Agreement.

Executed at Phoenix, Arizona, effective as of the date specified in the preamble of this Agreement.

DSTAGE.COM, INC.,
A Delaware corporation

EAGLE CONSULTING GROUP, INC.,
a Nevada corporation

By: _____
Its: President Its: President

By: _____

By: _____
Its: Secretary Its: Secretary

By: _____

